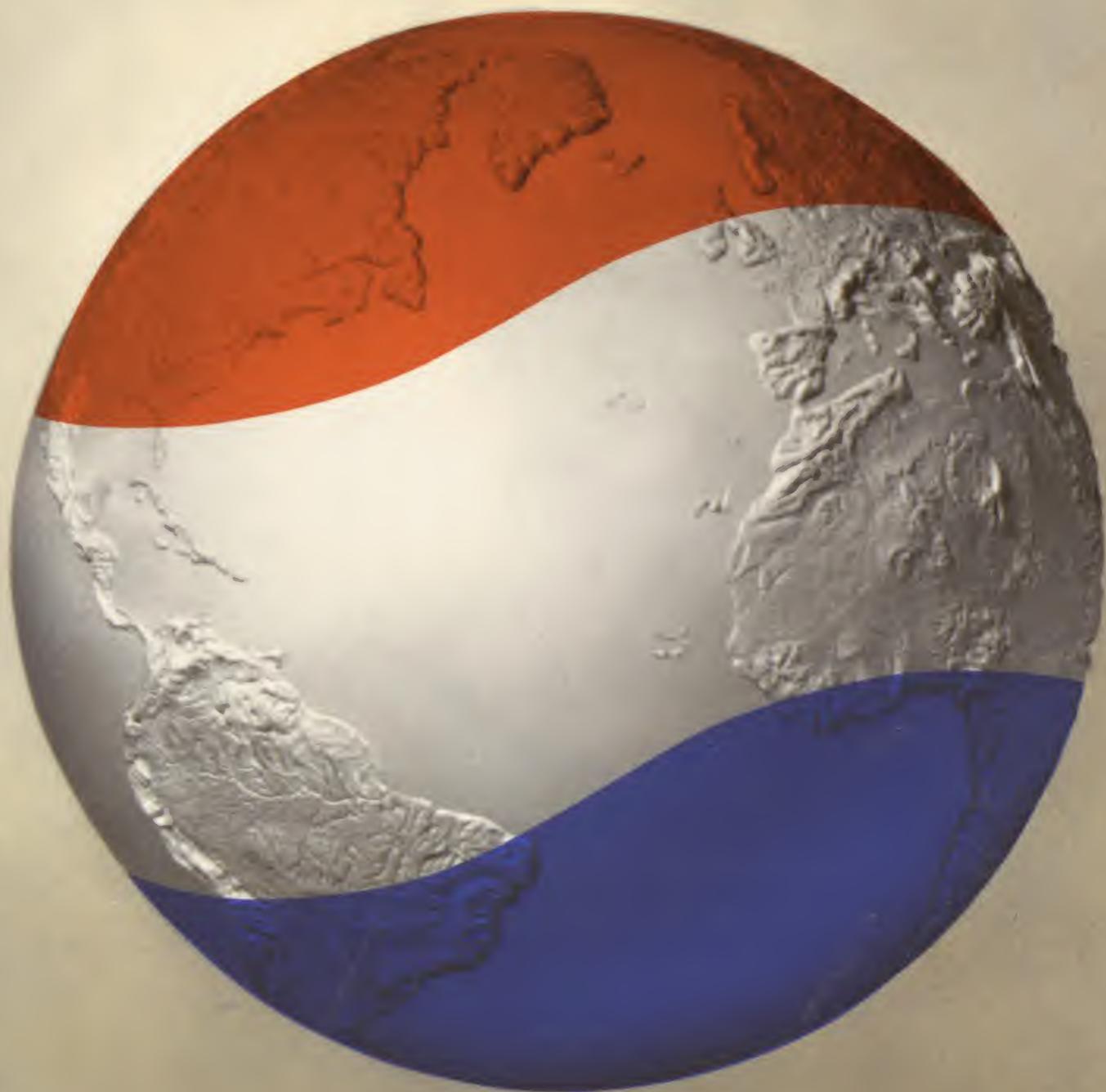


Pepsi-Cola Company Annual Report 1961



Pepsi-Cola Company
Annual Report 1961



Board of Directors

Herbert L. Barnet
 Charles Allen, Jr.
 Sheldon R. Coons
 Thomas Elmezzi
 James Felt
 Harry E. Gould
 Mortimer Hays
 Christopher E. Holzworth
 Donald M. Kendall
 Milward W. Martin
 J. Lincoln Morris
 Dr. Louis A. Rezzonico
 Joan Crawford Steele
 George C. Textor

Officers

Herbert L. Barnet, *President and Chief Executive Officer*
 William C. Durkee, *Senior Vice-President, Marketing*
 Thomas Elmezzi, *Senior Vice-President, Manufacturing*
 Adolph Krieger, Jr., *Administrative Vice-President and Controller*
 Milward W. Martin, *Senior Vice-President, Head of Law Department*
 Louis E. Nufer, *Senior Vice-President and Treasurer*
 Harold E. Rome, *Secretary*
VICE PRESIDENTS
 Charles N. Baker, *National Sales*
 Peter Borie, *Law*
 D. Mitchell Cox, *Public Relations*
 Roy L. Dossin
 Stephen L. Galvin, *Director of Research*
 Stephen J. Gullo, *Technical Services*
 Robert E. Haley, *Central Division*
 Philip B. Hinerfeld, *Advertising*
 B. Lowell Jacobsen, *Industrial Relations*
 William Joachim, *Design and Art*
 Victor M. Kaufman, *Western Division*
 Marc A. Lefebvre, *Field Operations*
 Seymour Lusterman, *Market Research*
 Henry E. McGovern, *Equipment*
 Neil A. Morrison, *Plant Design and Engineering*
 Richard C. Petrie, *Southern Division*
 John E. Repko, Jr., *Fountain Syrup*
 Philip Rubenstein
 Harvey C. Russell, *Special Markets*
 Carl B. Salts
 Frederick Sorensen, *Eastern Division*
 John J. Soughan, *Marketing Services*
 A. Allen Thomson, *Sugar Division*
 Robert M. Worden, *Teem Division*
 Vincent M. Burke, *Assistant Treasurer*
 James W. Robertson, *Assistant Secretary*

PRESIDENTS OF SUBSIDIARY COMPANIES

Donald M. Kendall,
President of Pepsi-Cola International, Ltd.
 Frank W. McIntosh,
President of Pepsi-Cola Canada Ltd.
 John L. Bate,
President of Pepsi-Cola Metropolitan Bottling Company, Inc.

Transfer Agents

The Marine Midland Trust Company of New York
 The First National Bank of Jersey City
 Harris Trust and Savings Bank (Chicago, Illinois)

Annual Meeting

The Annual Meeting of our Stockholders, which is held each year at the Company's home office in Wilmington, Delaware, will be held there this year at 2 p.m. E.D.T. Wednesday, May 2, 1962.

Registrars

The Chase Manhattan Bank, New York
 The First National Bank of Chicago

Counsel

Hays, Algase, Feuer, Porter & Spanier
General Counsel to Pepsi-Cola Company
 Seligson, Morris, & Neuburger
General Counsel to
Pepsi-Cola Metropolitan Bottling Company, Inc.



To the Stockholders of Pepsi-Cola Company

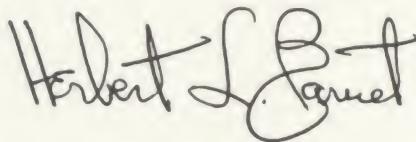
The strong, healthy growth of Pepsi-Cola Company, which has been the happy record of eleven years of pace-setting progress, continued in 1961. Again our reported case sales and earnings rose to new high records.

The heaviest investment we have ever made in marketing forces and the largest investment Pepsi Bottlers have ever made in the tools of production and distribution were thus rewarded. By comparison, the industry as a whole, hampered by the fact that in much of America summer never really came, barely matched or fell slightly behind its sales of the preceding year.

We took particular note that in those sections of our business in which we had recently instituted new and special effort—Pepsi-Cola International, TEEM, Patio, fountain sales, and the newer packages—growth was notable and highly promising.

During the months ahead, the opening of and expansion in large metropolitan markets overseas new to us, such as Paris, Rome, Milan, and Buenos Aires, all coming within the brief period of a few months, will require uncommon and substantial investment. Proportionate return is not expected until development produces profitable sales volumes, from which time they should make important contributions to profit.

With continued investment to produce continuing growth in all sections, with continuing prosperity among growing populations, and with the most encouraging rise of our new products, packages, and markets, we look forward to a future bright with promise.



Herbert L. Barnet, President

Board of Directors

Top (left to right):

Donald M. Kendall
Milward W. Martin
Herbert L. Barnet
Thomas Elmezzi

Middle:

Charles Allen, Jr.
George C. Textor
Joan Crawford Steele
Christopher E. Holzworth
Dr. Louis A. Rezzonico

Bottom:

Mortimer Hays
James Felt
J. Lincoln Morris
Harry E. Gould
Sheldon R. Coons

Ten-year comparison

Pepsi-Cola Company and Consolidated Subsidiaries

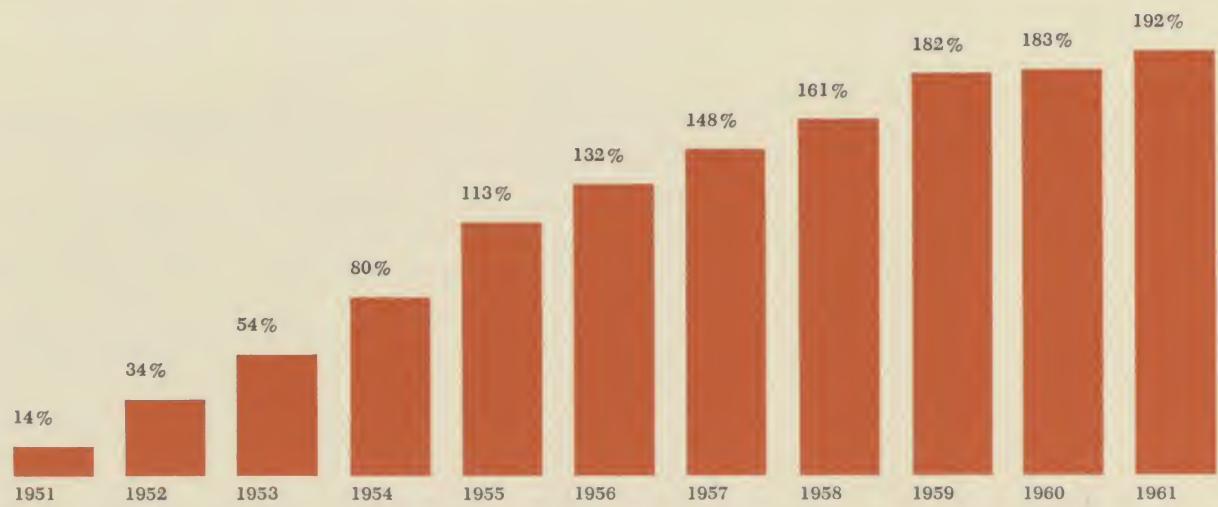
Financial Results

	Net Sales	Net Income	Earnings Per Share	Dividends	Dividends Per Share	Shares Outstanding
1961	\$173,854,426	\$14,368,035	\$2.21	\$9,109,755	\$1.40	6,509,055
1960	157,672,258	14,180,705	2.18	9,052,690	1.40	6,495,955
1959	157,769,109	13,873,843	2.17	7,833,818	1.25	6,384,415
1958	136,819,847	11,547,954	1.88	7,238,496	1.20	6,138,755
1957	120,330,773	9,559,675	1.61	6,220,528	1.05	5,926,205
1956	97,035,805	8,884,787	1.50	5,915,830	1.00	5,918,655
1955	88,970,600	9,456,766	1.60	5,897,090	1.00	5,909,005
1954	74,200,232	6,212,690	1.07	3,769,493	.65	5,813,155
1953	66,106,866	5,476,882	.95	2,871,752	.50	5,743,505
1952	53,297,852	3,880,362	.68	2,010,227	.35	5,743,505

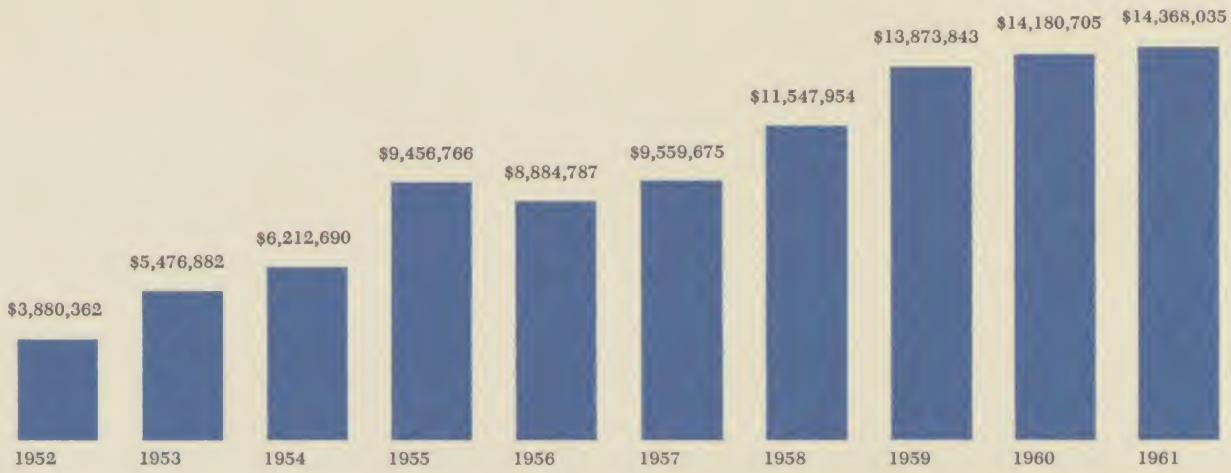
Financial Position

	Current Assets	Current Liabilities	Working Capital	Fixed Assets -Net	Other Assets	Long Term Indebtedness and Customers' Deposits	Reserve for Foreign Activities	Stockholders' Equity	Book Value Per Share
1961	\$70,665,032	\$26,279,229	\$44,385,803	\$42,818,073	\$13,595,870	\$24,578,536	\$4,098,870	\$72,122,340*	\$11.08
1960	63,176,165	19,031,454	44,144,711	39,770,876	11,315,498	24,912,379	4,143,172	66,175,534*	10.19
1959	58,681,888	23,430,599	35,251,289	37,742,852	12,712,000	22,516,154	4,595,467	58,594,520*	9.18
1958	36,252,272	19,019,387	17,232,885	34,049,468	13,637,942	12,804,641	3,104,950	49,010,704*	7.98
1957	33,748,837	19,396,554	14,352,283	31,839,309	11,777,999	12,394,706		45,574,885	7.69
1956	32,018,582	14,566,258	17,452,324	24,323,023	6,390,925	6,002,051		42,164,221	7.12
1955	32,803,026	14,300,372	18,502,654	20,103,341	5,180,719	4,692,600		39,094,114	6.62
1954	29,309,566	11,227,522	18,082,044	17,172,325	4,305,246	4,939,642		34,619,973	5.96
1953	29,850,407	11,854,418	17,995,989	14,758,730	3,963,617	5,111,280		31,607,056	5.50
1952	23,459,670	7,048,898	16,410,772	13,980,506	3,720,446	5,109,798		29,001,926	5.05

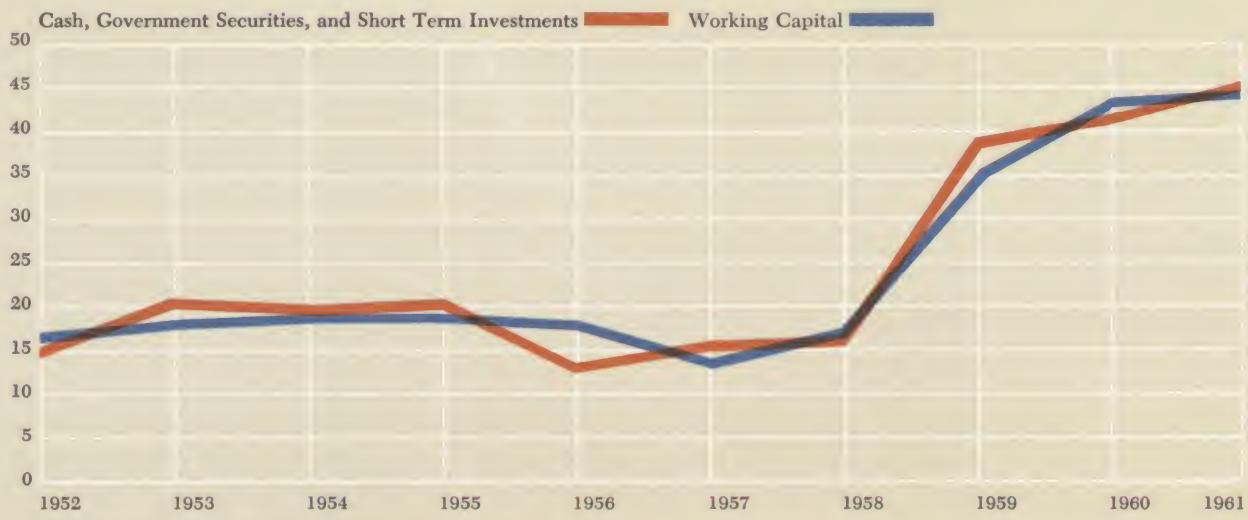
*After reduction attributable to Reserve for Foreign Activities



Domestic Case Sales Gains / Per cent Increase Over 1950



Net Income / 1952-1961



Working Capital; Cash, Government Securities, and Short Term Investments / In Millions

Financial Highlights

1961 case sales reported from domestic bottling plants were the highest in history, as they have been for twelve consecutive years (see chart, top, on previous page). They were 192% over 1950, and 200% ahead of 1949. During this period, United States population has grown less than 20%. Our growth, therefore, has been mainly in per capita sales.

Earnings in 1961 were \$2.21 per share based on 6,509,055 shares outstanding at December 31, 1961, compared with \$2.18 per share in 1960 on 6,495,955 shares outstanding at December 31, 1960. Earnings for 1961, before provisions for taxes and foreign activities, were \$30,062,539 as compared with earnings before taxes and adjustment for foreign activities of \$27,317,224 as reported in 1960.

Net income, after taxes and adjustment for foreign activities, was \$14,368,035 in 1961 compared with \$14,180,705 in 1960. United States and foreign taxes on 1961 earnings were \$15,320,000 compared with \$13,660,000 as reported in 1960.

Earnings Per Share of Capital Stock

1952	\$.68	1957	\$1.61
1953	.95	1958	1.88
1954	1.07	1959	2.17
1955	1.60	1960	2.18
1956	1.50	1961	2.21

Dividends

RECORD DATE	AMOUNT	PAID
March 10, 1961	\$.35	March 31, 1961
June 12, 1961	.35	June 30, 1961
September 11, 1961	.35	September 30, 1961
December 11, 1961	.35	December 30, 1961

Pepsi on the move



*Modern marketing
means change*



For those who think young

Continuing to set the pace in its industry, Pepsi-Cola Company, selling an impulse product to a world of changing customers, was full of change in 1961. New markets, new equipment, new packages, new promotions, new investments, new emphases, and new advertising capitalized on changing times and trends. Increased investment in advertising over 1960 was substantial in all media; operating for the first full year with our new agency, we changed the nature of our advertising on a broad scale.

The current advertising theme—"Now it's Pepsi for those who think young"—was launched in 1961 after extensive research. Its objective is to impress on the public consciousness: (1) that Pepsi has grown to the position of leadership and (2) that this preferential position is particularly strong among young-minded people—and all ages are young-minded.

The theme had its audible exposure through special lyrics written to an old popular tune, "Makin' Whoopee," sung and played thousands upon thousands of times over radio and television. Radio commercials featured the catching voice of Joanie Sommers, which during the year became one of the most familiar sounds on the air, a distinctive vocal quality caressing and emphasizing that *The lively crowd today agrees / Those who think young say, 'Pepsi, please' / They pick the right one, the modern light one. / Now it's Pepsi—for those who think young.* On television, arrangements of the song by Mitchell Ayres, underlying the first TV commercials ever filmed by the famed photographer Irving Penn, created the most imaginative advertising of a carbonated beverage that television has ever seen.

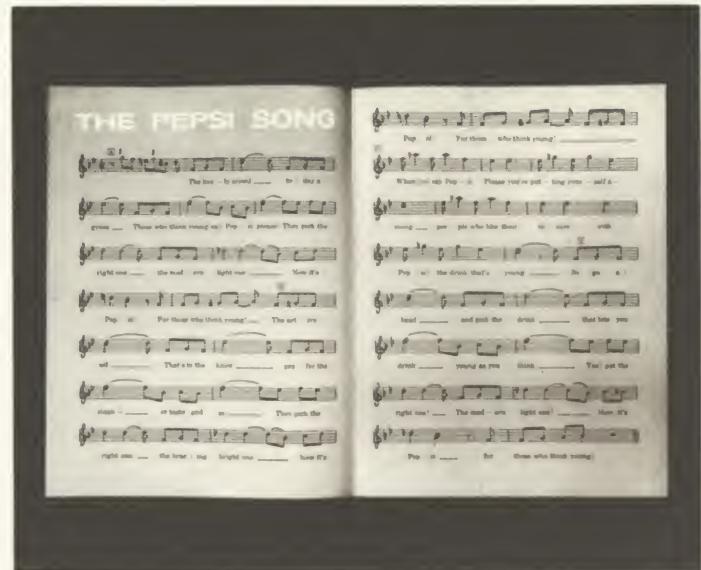
On six of the highest-rated network television programs, full-minute Pepsi spots appeared. In April, we sponsored a 90-minute spectacular starring Jane Powell, Art Carney, and Casey Stengel. In September we sponsored the first segment of the telecast of the Miss America Pageant, with which Pepsi and Pepsi Bottlers are involved in sponsorship. Featured in the opening commercial was Mary Ann Mobley, a former Miss America.

In radio, Pepsi-Cola was the nation's largest user of network spot advertising, sponsoring this type of commercial for 17 weeks in the peak selling season.

In print, dramatically conceived photography in full color, full-page Pepsi ads picturing attractive young people enjoying Pepsi appeared in such leading publications as *Life*, *Look*, *Saturday Evening Post*, and *Progressive Farmer*.

Tests verified that Pepsi advertising was noted by 15% more readers than had noted previous campaigns, that Pepsi ads on television scored three times higher than the standard "good" score and that the theme, 'Think Young,' was identified with Pepsi by 60% of those interviewed.

To advertise TEEM and Patio in those areas where they are distributed, we provided Bottlers with materials for local use—television and radio spots, newspaper and other print media, posters, and point-of-purchase materials. In addition we made use of full-color ads in the *Saturday Evening Post* over a four-state area where distribution of TEEM is widespread, and beginning in January, 1962, enlarged coverage to twelve states.



Big changes

Shifting patterns of living, both at home and abroad, led to changes in packaging, equipment, and marketing.

Sales of the relatively new sixteen-ounce bottles soared spectacularly; across the country, in many different marketing situations, sixteen-ounce bottles proved a powerful stimulus to continuing growth. During the year the number of franchises offering this package doubled, sales more than tripled, and in many such franchises the package accounted for as much as one-fourth to one-half of total "take-home" sales. Eight-bottle cartons (the customary carton holds six bottles) proved an additional attraction to customers in economy and convenience. With only about one-fourth the franchises in the United States so far handling sixteen-ounce, planned introductions in other franchises during 1962 indicate another big year of growth in this package.

Sales of another "convenience" package—Pepsi in cans—rose sharply. Six-pack cartons for Pepsi-Cola in cans, offering the multiple-sale convenience of bottle cartons, were made available throughout most of the country.

The twenty-six-ounce "hostess" size bottle also repeated its healthy growth of prior years.

Still another "convenience" package, the non-returnable bottle, was available in some fifteen percent of U. S. franchises. In 1961, adding the sixteen-ounce and the twelve-ounce non-returnable bottles to those sizes already available, the Company completed the line of distinctively styled bottle sizes.





IT
HALF-QUART
BOTTLES

Pepsi



Coins at the fountain

Sales of fountain syrup rose notably during a year which also produced a strongly reorganized fountain sales force, newer marketing methods, and newer equipment. In the United States some 120,000 fountain outlets offer high opportunity for growth in Pepsi's market share, still below its bottle share but growing more rapidly.

New equipment stimulated newer growth: (1) a multiple-drink fountain dispenser, offering TEEM and Patio as well as Pepsi, and christened the "Miss America"; (2) a new dispenser which whirls Pepsi-Cola—inside a transparent plastic dome in unobstructed view of the customer; and (3) stainless steel five-gallon transfer tanks which permit easy and rapid replacement of empty containers with full ones.



The growing legions

...of silent salesmen were dramatically improved by refinement and innovation. The new "Crown Line" of bottle vending machines, introduced late in 1961, greatly increases visual impact through a large illuminated panel on the top, front, and vertical stripes of red, white, and blue on the sides.

Wholly new were cup vendors providing crushed ice in their drinks. Can-vending machines were produced, and a carton-vending machine was under development.

Capitalizing on the profound changes in American living patterns brought about by the automobile was the Beverage Mart, which sells whole cases from open display but can be locked for safety when unguarded. Backed by vigorous marketing, this new device offers high promise.

New promotions

To support sales in every franchise the Company provided the stimulus of exciting promotions.

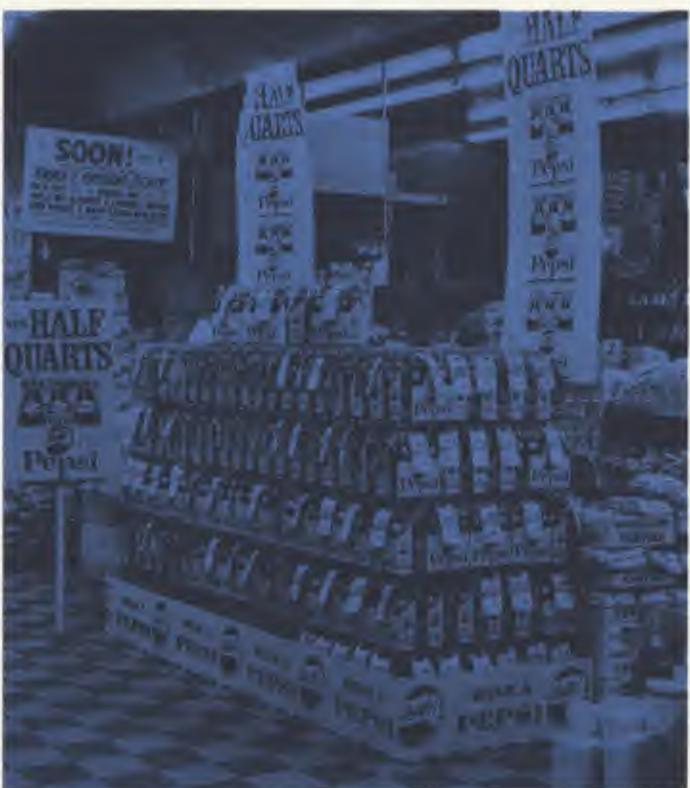
Over 70% of domestic Bottlers voluntarily entered themselves and some 7,000 route salesmen in a cooperative incentive program which within three months placed thousands of vendors, displays, and signs, and opened thousands of new outlets. During this program Bottlers invested some \$10,000,000 in merchandising and advertising materials alone.

A special sampling promotion produced additional hundreds of huge supplementary displays and sampled Pepsi-Cola in bottles, cartons, and premix to almost 15,000,000 customers.

Special joint promotions with food products brought other thousands of prominent displays, including one promotion with potato chips, another with popcorn, and a third with cookies. The third of these alone produced 13,000 displays.

By year's end still another promotion had put recordings of Pepsi's advertising theme song into 150,000 homes.

Introduced into a few franchises only a few weeks before Christmas, a "Gift Seal" promotion, through which seals under the bottle crowns are redeemable for prizes, rapidly opened hundreds of new accounts, and sent sales rising sharply.





Pepsi-Cola

Pepsi-Cola

Peps

Our new flavors

...are booming with growth. Sales of TEEM were triple those of the preceding year, as the product was introduced into 156 new franchises by Pepsi Bottlers during 1961. This brought the total number of domestic TEEM Bottlers to 286, serving 61% of the national population. In addition, more than half the Pepsi Bottlers of Canada were selling TEEM by the end of the year, and additions to franchises in both countries were continuing rapidly. All this growth has come in only 30 months after the product was introduced.

To shape and lead this growth, in 1961 the Company created and set into operative force a new TEEM division, directed by a Vice-President and staffed with a full field force working in all areas of the country.

By year's end, Patio (under which label are bottled orange, grape, root beer, ginger ale, club soda, strawberry, and strawberry cream flavors) was being distributed in 82 franchises by Pepsi Bottlers serving 31 percent of the national population. Although volume compared with Pepsi-Cola is, of course, minor, sales more than doubled those of the preceding year.



PEPSI

With Crushed Ice

HAVE A PEPSI

Team



.10



Doing good works

On many fronts, participation in public activities which people like and respect drew to the Company and its product the good will which precedes sales.

As in previous years, Pepsi sponsorship of the Miss America Scholarship pageants, state, national, and often local, drew wide publicity and favorable acclaim. Jointly from the Company and Pepsi Bottlers each winner of a state contest received a one-thousand-dollar scholarship, administered by a state committee and used solely to support her college or professional education. Many runners-up and local winners receive other scholarships.

The presence of Mrs. Joan Crawford Steele, a Director of the Company, as a judge during the finals in Atlantic City and the Company's sponsorship of the opening portion of the telecast of that pageant, during which Miss Mary Ann Mobley, a former Miss America, explained the Pepsi Scholarship Program, drew wide acclaim from a vast national audience.

During 1961 a "Help Discover Miss America" promotion tested in several franchises boosted Pepsi-Cola sales so much that it was recommended to Bottlers for 1962.

Extensive and favorable response came from Pepsi hospitality





at scores of national conventions, such as those of the American Medical Association, the Theatre Owners of America, the Club Managers Association, the Association of Secondary School Principals, the National Restaurant Association, the National Association of Retail Grocers, the American Society of Corporate Secretaries, Inc., and the Tavern Owners' Association.

The Company continued its support of the Junior Chambers of Commerce in their sponsorship of tennis and golf tournaments for teenagers, and enlarged its sports participation to include certain others in the fields of golf, intercollegiate athletics, automobile racing, and others.

At many plant openings and other public events the presence of Mrs. Joan Crawford Steele and other Company officials redounded to the benefit of the Company's public relations by drawing special interest to the corporation and its product.

In the lobby of its world headquarters building at 500 Park Avenue in New York City the Company displayed monthly exhibits of much interest to many people, one such exhibit drawing an average of 1300 viewing visitors each day. Displays included, among others, those of Mexico, the Philippines, West Germany, Italy, the art exhibit of the American Physicians' Art Association, and the awards exhibit of the Art Directors' Club of New York.



World wide expansion



Overseas activities



The rapid growth of Pepsi-Cola International, Ltd., during the last several years continued unabated during 1961. Both sales and earnings rose to all-time high records, and the share of this group's contribution to income of Pepsi-Cola Company rose significantly higher.

By means of hard-hitting sales and advertising programs and of co-ordinated research and effort, drives to increase penetration in existing markets received major emphasis despite the large-scale inauguration of new plants. In many franchises per capita sales ran gratifyingly high; more than 20% of all foreign franchises produced sales exceeding 1,000,000 cases of Pepsi-Cola, and in Pan America and South America more than one-third did so.

The growth of our foreign business has been such that in four years the number of plants overseas has risen from 166 serving 74 countries in 1957 to 256 plants serving 90 countries with over 300,000,000 population in 1961. In five years case sales have grown 67 percent and earnings have increased substantially.

Pepsi-Cola International, Ltd. supervised during 1961 a total of 28 new plant openings in 18 different countries, in six of which Pepsi was being introduced for the first time: Argentina (two plants), Italy (two plants), Switzerland, St. Vincent, W. I., Nyasaland, and the Sheikdom of Qatar on the Persian Gulf. In addition, three new plant openings in Mexico, including the second plant in Mexico City, brought the total in that country to 41 Pepsi plants; four new plants in Germany brought the total there to 25; four in England raised that total to 14; two in South Africa; and one new plant was opened in each of the following countries: Algeria (second plant), Brazil (seventh plant), Norway (seventh plant), Nigeria (fourth plant), Canary Islands (second plant), New Zealand, and the Philippines.

Almost invariably plant openings overseas are accompanied by promotion and publicity on a grand scale essential to awakening a whole population to the presence of Pepsi. Often involving many public figures and many people prominent in the commercial, financial, governmental, religious, and social worlds of their city or country, these openings overseas make their influence promptly and widely felt. In 1961, for example, particularly impressive to the public consciousness of their countries were the introductions of Pepsi-Cola into Milan, Italy, and Buenos Aires, Argentina (considered to be the largest soft-drink market outside the United States). In each instance, week-long activities rose in a fervor of excitement, promotion, and publicity which aroused the attention of the whole populace.

Pepsi's dramatic growth in overseas markets called for "hard sell" advertising and promotion. Pattern programs and prototype advertisements developed in New York, dramatizing the bottle and trade mark, were adapted with much success by a majority of bottlers.

The importance of developing strong community relations was emphasized and backed by sponsorship of the world-wide Junior Chamber of Commerce International Community Development Program. In addition many bottlers strengthened their community standing by making major contributions to such projects as school building programs and disaster relief.

During 1962 this expansion will continue. By late spring Pepsi-Cola will become available for the first time in the major markets of France through the world-renowned Source Perrier organization, with the most extensive distribution system in France already serving more than 400,000 outlets. In addition, plans are well underway for openings in important cities in other countries, including Rome, Italy, and São Paulo, Brazil.

In addition to Pepsi, a new line of flavors called Mirinda (the foreign counterpart of TEEM and Patio) is now available in 32 Pepsi-Cola franchises spread over five continents.

While at home

In the United States, Pepsi Bottlers made the largest expenditure in their history on bottling machinery and bottling equipment. Through new plants, new warehouses, and additions to old facilities they invested in the largest square-footage expansion in their history. Additions were made to 35 existing plants, and construction was completed on eight new warehouses and 23 new bottling plants.

New bottling plants were completed during the year in Sheffield, Alabama; Orlando and Tampa, Florida; Lewiston, Idaho; Rock Island, Illinois; Estherville and Oskaloosa, Iowa; Emporia and Topeka, Kansas; Baton Rouge, Louisiana; Albany, Missouri; Asbury Park, New Jersey; Buffalo and Ogdensburg, New York; Roxboro, North Carolina; New Philadelphia, Ohio; Sumter, South Carolina; Nashville, Tennessee; El Paso and Lubbock, Texas; Portsmouth, Virginia; Mount Vernon and Seattle, Wash.







Accountants' Opinion

HASKINS & SELLS
Certified Public Accountants

Two Broadway
New York 4

The Directors and Stockholders of Pepsi-Cola Company:

We have examined the consolidated balance sheet of Pepsi-Cola Company and its consolidated subsidiaries as of December 31, 1961 and the related statements of consolidated income and surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated income and surplus present fairly the financial position of the companies at December 31, 1961 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

March 14, 1962 .

Consolidated Balance Sheet December 31, 1961 and 1960

Pepsi-Cola Company and Consolidated Subsidiaries

Assets	1961	1960
CURRENT ASSETS:		
Cash	\$ 44,389,477	\$ 32,920,081
United States and Canadian Government securities and other short term investments—at cost (approximately market)	902,000	9,464,931
Notes and accounts receivable (less allowance for doubtful receivables—1961, \$874,678; 1960, \$817,484)	11,087,417	9,843,649
Inventories—at cost, not in excess of market:		
Finished, in-process, raw materials and supplies	12,731,843	9,505,884
Vending equipment held for resale	1,554,295	1,441,620
Total current assets	70,665,032	63,176,165
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	2,635,615	2,312,870
Investment in and advances to subsidiaries not consolidated	2,537,647	595,455
Other	655,523	462,083
Total miscellaneous assets	5,828,785	3,370,408
PROPERTY, PLANT AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less depreciation and amortization—1961, \$32,815,571; 1960, \$28,587,161)	33,840,587	31,868,049
Bottles and cases on hand and with trade (principally at estimated depreciated values)	8,977,486	7,902,827
Total property, plant and equipment—net	42,818,073	39,770,876
DEFERRED CHARGES:		
Prepaid insurance, taxes, etc.	1,093,813	1,196,205
Advertising materials and expenses	2,765,739	2,634,914
Other	778,341	559,808
Total deferred charges	4,637,893	4,390,927
TRADEMARKS, FORMULAS AND GOODWILL (less amortization)	3,129,192	3,554,163
TOTAL	\$127,078,975	\$114,262,539

Consolidated Balance Sheet December 31, 1961 and 1960

Pepsi-Cola Company and Consolidated Subsidiaries

Liabilities	1961	1960
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term indebtedness)	\$ 1,653,721	\$ 247,033
Accounts payable and accrued	11,228,330	8,817,228
Accrued taxes:		
United States and foreign income taxes	11,219,092	7,916,112
Other taxes	2,178,086	2,051,081
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	26,279,229	19,031,454
OTHER LIABILITIES:		
Long-term indebtedness (current installments included above):		
5 1/4 % notes (payable in annual installments of \$1,250,000 to 1973; the balance payable in 1974)	18,750,000	20,000,000
Other	887,051	572,535
Customers' deposits on bottles and cases	4,941,485	4,339,844
Total other liabilities	24,578,536	24,912,379
RESERVE FOR FOREIGN ACTIVITIES	4,098,870	4,143,172
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized, 7,500,000 shares of 33 1/3¢ each; issued and outstanding at December 31, 1961, 6,509,055 shares	2,169,685	2,165,318
Capital surplus	10,991,676	10,726,323
Earned surplus	58,960,979	53,283,893
Total capital stock and surplus	72,122,340	66,175,534
TOTAL	\$127,078,975	\$114,262,539

Consolidated Income for the years ended December 31, 1961 and 1960

Pepsi-Cola Company and Consolidated Subsidiaries

	1961	1960
Net Sales	\$173,854,426	\$157,672,258
Cost of Sales	50,240,570	43,699,003
Gross Profit on Sales	123,613,856	113,973,255
Advertising, Selling, Shipping, General and Administrative Expenses	93,218,310	85,848,713
Profit from Operations	30,395,546	28,124,542
Other Income	1,500,093	1,636,486
Total Income	31,895,639	29,761,028
Income Charges:		
Interest on indebtedness	1,108,159	994,750
Losses arising from devaluation of foreign currencies	55,570	935,006
Other	669,371	514,048
Total	1,833,100	2,443,804
Income Before Income Taxes	30,062,539	27,317,224
Provisions for United States and Foreign Income Taxes:		
United States	10,370,000	9,300,000
Foreign	4,950,000	4,360,000
Total	15,320,000	13,660,000
Income After Provisions for Income Taxes	14,742,539	13,657,224
Adjustment for Foreign Activities	(374,504)	523,481
Net Income	\$ 14,368,035	\$ 14,180,705

Consolidated Surplus for the year ended December 31, 1961

Pepsi-Cola Company and Consolidated Subsidiaries

Earned Surplus

Balance, January 1, 1961	\$53,283,893
Net income for the year	14,368,035
Portion of prior year's appropriation to Reserve for Foreign Activities restored to Earned Surplus (amount equivalent to foreign subsidiary's loss which reduced unremitted profits previously appropriated)	418,806
	68,070,734
Less dividends paid—cash (\$1.40 a share)	9,109,755
Balance, December 31, 1961	\$58,960,979

Capital Surplus

Balance, January 1, 1961	\$10,726,323
Excess of proceeds over par value of 13,100 shares of capital stock issued under stock option plans	265,353
Balance, December 31, 1961	\$10,991,676

1. The consolidated financial statements include the accounts of all active subsidiaries except the British subsidiary (which has been excluded since 1950) and a bottling company in Uruguay (which was acquired late in 1961).

The assets and liabilities of foreign subsidiaries have been translated into United States dollars at current rates of exchange, except that property, plant and equipment (and related depreciation) have been translated at rates prevailing at dates of acquisition; income and expenses (other than depreciation) have been translated at rates prevailing during the year.

The net current assets, total assets and total liabilities of consolidated foreign subsidiaries (other than Canadian subsidiaries), stated in terms of United States dollars, were \$8,325,203, \$24,038,337 and \$4,853,336, respectively, at December 31, 1961.

The amount at which the Company's investment in the British subsidiary is carried is equivalent to that subsidiary's net assets. The investment in, and advances to, the Uruguayan subsidiary amount to \$1,950,000, of which a portion has been placed in escrow pending the final determination of the valuation of net assets.

2. It is the policy of the Company to exclude from consolidated net income and consolidated earned surplus the unremitting earnings of foreign subsidiaries, other than Canadian subsidiaries, by providing a Reserve for Foreign Activities. A transfer is made each year to or from the reserve representing (a) such subsidiaries' unremitting profits (before devaluation charges) less applicable charges for amortization of goodwill, and (b) losses arising from devaluation of foreign currencies. The adjustment for foreign activities in 1961 represents unremitting profits of \$430,074 determined as in (a) above, less devaluation losses of \$55,570.

3. United States income tax returns of the Company and principal domestic subsidiaries have been examined and settled through the year 1957; Canadian taxes of Canadian subsidiaries have been settled through the year 1958.

4. The loan agreements relating to the 5 1/4 % notes payable contain various restrictions including provisions relating to the maintenance of consolidated working capital of the Company and certain subsidiaries, and restrictions on the payment of dividends and the purchase of shares of the Company's capital

stock. Of the consolidated earned surplus at December 31, 1961, approximately \$21,000,000 was free of restriction.

5. At January 1, 1961, under Stock Option Plans of 1955 and 1959, which were approved by the stockholders in 1956 and 1960, respectively, there were outstanding options to purchase 153,350 shares of the Company's capital stock and 106,650 shares were reserved for the granting of additional options. During 1961 options for 13,100 shares were exercised for an aggregate option price of \$269,720, and options for 3,850 shares were cancelled. No options were granted during 1961. At December 31, 1961 options were outstanding with respect to 136,400 shares having an aggregate option price of \$4,335,677 and 108,250 shares were reserved for the granting of additional options.

No additional options may be granted under the 1955 Plan. Under the terms of the 1959 Plan, options must be granted at 100% of the highest market price on the date of grant. Options granted under the 1955 Plan are exercisable within five years from the respective dates of grants; options granted under the 1959 Plan are exercisable within eight years.

6. As reported to the stockholders in the Annual Reports for 1959 and 1960, a stockholder owning 100 shares of the Company's common stock instituted in February 1960 two identical actions on the Company's behalf, one in the Delaware Chancery Court and the other in the New York Supreme Court, against certain directors of the Company and the Executors of the Estate of Alfred N. Steele. Both suits have been finally disposed of by summary judgments in favor of the defendants on the merits.

Pursuant to its obligation under its by-laws to indemnify defendant directors against costs and expenses reasonably incurred by them in connection with the defense of such suits, the Company paid the charges of the firm of Seligson, Morris & Neuburger in the sum of \$30,000 for legal services rendered and disbursements incurred in said suits on behalf of defendants Herbert L. Barnet, and George C. Textor, Joan Crawford Steele and J. Lincoln Morris, individually and as Executors of the Estate of Alfred N. Steele; the charges of Hays, Algase, Feuer, Porter & Spanier in the sum of \$56,392 for legal services rendered and disbursements incurred in said suits on behalf of defendants Charles Allen, Jr., James G. Blaine, James W. Carkner, Sheldon R. Coons, James Felt, Harry E. Gould, Mortimer Hays, Christopher E. Holzworth, Estate of Emmett R.

O'Connell, Milward W. Martin and Dr. Louis A. Rezzonico; and the charges of the firms of Killoran & Van Brunt and Berl, Potter & Anderson, in the aggregate amount of \$15,444, for legal services rendered and disbursements incurred on behalf of all defendants in the Delaware suit.

7. The Company and its consolidated subsidiaries are lessees under 42 leases having unexpired terms of more than three years which expire at various dates to 1992. The present minimum aggregate annual rental under these leases is approximately \$2,000,000.

8. At December 31, 1961 the Company and consolidated subsidiaries were contingently liable as guarantors of loans, principally to various franchised Bottlers, aggregating approximately \$6,400,000. Other guarantees by the Company amounted to \$750,000.

9. Certain vending equipment acquired by Bottlers is purchased by them on the installment basis and financed by banks; unpaid balances due by Bottlers on such acquisitions amounted to approximately \$13,600,000 at December 31, 1961. The Company has agreed to purchase such equipment, in the event of default by the buyers, for the unpaid balance; purchases by the Company under such agreements have been immaterial.

10. The provisions for depreciation and amortization amounted to \$5,700,000 in 1961, and to \$5,400,000 in 1960.

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Division Offices

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EASTERN

1012 14th Street, N.W.
Washington 5, D.C.

SOUTHERN

1910 Vaughn Building
Dallas 1, Texas

WESTERN

223 South Beverly Drive
Beverly Hills, California

Regional Offices

1776 Peachtree Building
Atlanta 9, Georgia

35 East Wacker Drive
Chicago 1, Illinois

3420 LeVeque Lincoln Tower Building
Columbus 15, Ohio

1918 Vaughn Building
Dallas 1, Texas

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